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Fiscal Note

Fiscal Services Division

HF 2381 – Petroleum Tanks Fund and Financing Program (LSB5257HV)
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Fiscal Note Version – New

Description

House File 2381 relates to the Iowa Comprehensive Petroleum Underground Storage Tank Fund and Board (UST Fund and UST Board) and to related programs and program financing. The bill:

- Strikes an annual $14.0 million transfer from the **Statutory Allocations Fund** to the **UST Fund**. The change is effective beginning FY 2017.
- Strikes an annual $3.0 million transfer from the Statutory Allocations Fund to the Department of Agriculture and Land Stewardship (DALS) **Renewable Fuel Infrastructure Fund**. The change is effective beginning FY 2017.
- Eliminates the UST Board and the existing UST Fund at the conclusion of FY 2017.
- Creates a new Iowa Tanks Fund within the Iowa Finance Authority (IFA). The Fund is to be administered jointly by the IFA and the Iowa Department of Natural Resources (DNR). The new fund retains interest earnings and is to be used to reimburse eligible petroleum contamination claims and for administration.
- Transfers all money remaining in the UST Fund as of July 1, 2017, to the new Iowa Tanks Fund.
- Appropriates $200,000 annually to the DNR from the Iowa Tanks Fund. The appropriation is to be used to support the Department's new administrative duties related to environmental claims approval and processing and for the protection of Iowa groundwater from contamination caused by leaking underground storage tanks.
- Eliminates eligibility for financial assistance under the existing UST Program for new claims filed after December 31, 2016.
- Creates an owner-reimbursement process to be administered by the DNR and the IFA for eligible petroleum release cleanup expenditures, with reimbursement paid from the Iowa Tanks Fund.

Background

Iowa's Environmental Protection Charge (EPC) is set to expire at the end of FY 2016. The EPC is equal to $0.01 per petroleum gallon. The EPC generates revenue of approximately $21.5 million per year. Although originally designed as a financing mechanism for the cleanup of petroleum contamination, for many years the EPC has been a revenue source for the Road Use Tax Fund (RUTF). Underground petroleum storage tax cleanup has instead been financed at first through an annual allocation of motor vehicle use tax, and later (and currently) through an annual allocation from the Statutory Allocation Fund.

While the EPC is set to expire at the end of FY 2016, the annual $14.0 million allocation to UST cleanup does not expire. In addition, the Renewable Fuel Infrastructure Fund receives an annual $3.0 million allocation from the Statutory Allocations Fund and this allocation does not expire.

The Statutory Allocations Fund receives funding from trailer registration fees, driver's license fees, and other fees. Any revenue in the Fund that is not specifically allocated to another purpose is transferred to the RUTF. The scheduled expiration of the EPC will reduce RUTF revenue by $21.5 million per year and this bill does not change that. The bill does eliminate two ongoing annual allocations totaling $17.0 million, and this will increase RUTF revenue by $17.0 million per year and offset much of the revenue decrease associated with the EPC expiration. A 2014 ***Issue Review*** describing the **EPC** is available from the Legislative Services Agency.

The UST Program, UST Fund, and UST Fund Board were created in HF 447 (Petroleum Underground Storage Tank Act of 1989). The main purpose of the Program was to provide environmental remediation assistance, site insurance, and loan financing for underground petroleum storage tank locations. A 2014 ***Issue Review*** describing the **UST Program** is available from the Legislative Services Agency.

Updating the 2014 ***Issue Review*** analysis, the UST Program had a balance at the end of FY 2015 of $33.7 million and outstanding cleanup obligations of $29.3 million. During the course of FY 2016 the UST Fund will receive $14.0 million from the Statutory Allocations Fund and will make payments for remedial claims and for administration. The projected UST Fund balance at the conclusion of FY 2016 is $36.3 million and outstanding claim obligations are expected to total $22.8 million.

While an increase in the expected total cleanup cost for known claims has reduced the future financial condition of the UST Program somewhat, the projected balances for FY 2016 through FY 2019 are expected to be sufficient to pay all existing and future Fund obligations without the continued revenue transfer from the Statutory Allocations Fund after FY 2016.

The Renewable Fuels Infrastructure Fund is administered by the DALS and the **Renewable Infrastructure Board**. The sources of revenue for the Fund include the annual $3.0 million transfer from the Statutory Allocations Fund and interest. The Fund is used for the following purposes:

- Up to $50,000 annually for administration.
- Up to 1.5% (about $45,000 per year) for program marketing.
- Renewable fuel infrastructure incentives for petroleum retailers and terminals. The purpose of the Program is to improve motor fuel distribution sites by installing, replacing, or converting infrastructure to be used to store, blend, or dispense renewable (ethanol and biodiesel) fuel.
- Since FY 2012, the annual Agriculture and Natural Resources Appropriation Acts have appropriated $500,000 each year from the Renewable Fuel Infrastructure Fund to the DALS for motor fuel inspection.

Over four fiscal years (FY 2012 through FY 2015), the Renewable Fuel Infrastructure Fund:

- Received $12.0 million from the Statutory Allocations Fund.
- Received $87,000 in interest and other revenue.
- Transferred $2.0 million to the DALS for motor fuel inspection.
- Expended $200,000 on administration.
- Expended $8.5 million on retail and terminal motor fuel infrastructure incentives.
- Ending balance increased $1.4 million.

Fiscal Impact

The bill strikes annual allocations from the Statutory Allocations Fund to the UST Fund and the Renewable Fuel Infrastructure Fund beginning with FY 2017. This change will have the following annual fiscal impacts:

- UST Fund, negative $14.0 million.
- Renewable Fuel Infrastructure Fund, negative $3.0 million.
- RUTF, positive $17.0 million.

Current projections indicate that the existing UST Fund has a sufficient balance to pay all remaining Fund obligations and to provide a funding source for future petroleum cleanup identified by the DNR.

The Renewable Fuel Infrastructure Fund had a balance of $3.4 million at the end of FY 2015 and at the end of February 2016 the Fund had a similar cash balance. Some of that balance may be available to continue the purposes of the Fund. However, there is no ongoing funding source to support the current annual uses of the Fund ($50,000 administration, $500,000 motor fuel inspection, $2.5 million renewable fuel infrastructure incentives).

The $17.0 million in RUTF revenue will become part of that Fund's distribution formula and will be used for city, county, and state road construction and maintenance activities.

The bill appropriates $200,000 per year to the DNR from the Iowa Tanks Fund. The appropriation is to be used by the DNR to assume the administrative responsibilities of the UST Program. The annual standing appropriation is for five fiscal years (FY 2018 through FY 2022). The Department expects the new duties will require 2.0 FTE positions, but the work will be completed with existing Department staff.

Sources

Legislative Services Agency Analysis
Department of Transportation
Department of Natural Resources
Iowa UST Board
State of Iowa accounting system

/s/ Holly M. Lyons

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